Ins and Outs of VAT

December 2013
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Foreword

This is the sixth edition of our Ins and Outs of Russian VAT that is purported to providing general overview of the Russian VAT law and its enforcement. We intend to issue season revisions of the Ins and Outs to correspond with further developments and changes in Russian VAT legislation, as well as to summarize some specific problems and ways of their solving based on our practice.

At Grant Thornton, we are committed to providing highly professional services to help all of our clients meet their needs. We have produced this brochure as a part of our services, but it is intended only as a guide highlighting general issues, which may be of interest to our clients. It is not a substitute for full professional advice and specialists assistance, and therefore, should you have some questions and inquiries on VAT problems faced by your business please do not hesitate to contact specialists of our firm.

Sincerely yours,

Grant Thornton
Section I.
General Provisions

1.1. Value Added Tax Law

Value Added Tax (hereinafter referred as “VAT”) is a federal tax, governed by Chapter 21 “Value Added Tax” of the Russian Tax Code. Advisory letters and orders of the RF Federal Tax Service (hereinafter referred as “FTS”) and the RF Ministry of Finance (hereinafter referred as “MinFin”) explain how Russian tax authorities interpret the VAT law. From August 2004 explanatory letters issued by MinFin supersede the tax authorities’ ones.

Although the Russian judicial system is not based on case law, decisions of the Supreme Arbitration Court and the Constitutional Court on tax issues normally have significant impact on day-to-day practice of the Russian tax authorities.

1.2. Taxable Supplies

VAT is generally levied upon:

- supply of goods, work and services, including supply on a free-charge basis,
- import of goods to the customs territory of the Russian Federation,
- transfer of goods for own consumption in case such expenses are non-deductible for Profits tax purposes,
- performance of construction and assembly works for own purposes.

VAT is payable if such supplies are made in the Russian Federation by a taxpayer and not exempt or zero-rated. Supplies of goods, works, services, which are made in the Russian Federation and not exempt, are called taxable supplies.

Supply in the sense of the Russian Tax Code means transferring of the right of ownership on goods, works and services from the supplier to the customer.
1.3. Exemption from VAT

**Non-taxable Supplies**

Supplies which are exempt from VAT by the Tax Code shall be treated as non-taxable supplies. If supply of exempted goods and services needs special permission (license) then a supplier may exempt such supplies from VAT only after obtaining such a license.

Supplies of certain goods and services are exempt from VAT, however, a taxpayer may decide to waive an exemption and to opt the VAT.

Therefore, you should be sure that the supplies you are to make are included into the list of reduced-rated, zero-rated or exempt supplies and that provisions of the contract with your customer cannot be interpreted by tax authorities in such a way that they will change categorization of your supplies to something different that is mentioned in the lists. Reduced-rated, zero-rated or exempt supplies are mentioned in relevant lists (See appendixes 1, 2, 3).

**Exemption from VAT taxpayer obligations**

Taxpayers with taxable supplies below RUR 2,000,000 (approx USD 62,000, VAT exclusive) in a three preceding months period are not recognized taxable persons unless their taxable supplies exceed the mentioned limit. To gain this exemption persons must submit to the local tax authorities an application and documents proving their right for such exemption.

Please be aware that such exemption of taxpayers does not apply to excisable supplies and to VAT payable at importation of goods to the territory of Russia.

Furthermore, where a taxpayer applies Simplified Taxation System (STS) or Imputed Tax System (ITS) he is exempted from VAT taxpayer obligations.

1.4. Outside the Scope of the Russian VAT Supplies

Supplies of goods and services made outside Russia, are outside the scope of the Russian VAT.

In addition to the above the Russian Tax Code lists a few supplies, which shall be treated outside the scope of VAT. We may cite as an example the following transactions:

- the operations associated with the circulation of Russian or foreign currency (except for numismatic purposes);
- transfer of assets to legal successor in the result of re-organization of the taxpayer;
- transfer of assets to non-for-profit entities for use in carrying out their main statutory activities not connected with commercial activities;
- the transfer without consideration of dwelling houses, kindergartens, clubs, sanatoria and other social and cultural facilities, housing facilities and utilities, and roads, power-supply systems, substations, gas-supply systems, water-supply facilities and other similar facilities to State bodies and local government bodies (or, at the decision of those bodies, to specialized organizations which operate or maintain those facilities in accordance with their designated purpose);
- the transfer of assets of State and municipal enterprises which are purchased through privatization;
- the performance of work (rendering of services) by bodies which form part of the system of State bodies and local government bodies by way of the performance of the functions which have been assigned to them if the performance of that work (the rendering of those services) is obligatory in accordance with the legislation of the Russian Federation, the legislation of constituent entities of the Russian Federation and acts of local government bodies;
- the transfer of fixed assets without consideration to State government and administrative bodies and local government bodies and to budgetary institutions and State and municipal unitary enterprises;
- the sale of land plots and states in land plots.

1.5. How does VAT work?

When you supply goods, services and these supplies are taxable you must add to the price VAT at relevant rate. This VAT charged to your clients and customers is **Output VAT**, which you must account for due to the budget. When you buy goods and services for business purposes you pay VAT to your suppliers. This VAT is **Input VAT**.

Normally, with some exceptions, input VAT may be deducted from Output VAT. The difference shall be paid to the Budget. The excess of Input VAT over Output VAT in any tax period may be claimed for refund. However, if your supplies are exempt from VAT or are not taxable you are not allowed to recover Input VAT from the Budget.

If you make taxable and non-taxable supplies you must apportion input VAT and split it into two parts, one of which may be deducted from output VAT and the other shall be included into tax-deductible expenses for the purposes of the Corporate profits tax (See Item 3.15 below).

1.6. Taxpayers

A Russian resident individual entrepreneur, a legal entity (both Russian resident entity and entity established abroad) are recognized by the VAT law taxable persons (taxpayers), irrespective of whether they are registered with a local tax inspectorate or not. Provided they make less than RUR 2 000 000 (approx USD 62 000) taxable supplies (VAT exclusive) in a three months period, they can apply for exemption from VAT.

1.7. Tax Registration

The current tax legislation does not predicate a separate registration with Russian local tax authorities only for VAT purposes. So, taxpayers must fulfil general requirements and regulations on tax registration, laid down by Russian tax authorities.
1.8. VAT Rates

There are the following rates of VAT:

- a standard rate of 18%,
- a reduced rate of 10%,
- a zero rate,
- computation rates of 18/118 or 10/110.

Please note that the appropriate rate for any supply is that current at the time of the supply (See Item 2.4 below).

1.9. Place of Supply of Goods

Under provisions of Article 147 RF Tax Code Russia shall be treated as the Place of Supply of goods if (a) goods are located in the territory of Russia and are not dispatched or transported (e.g. real estate property); or (b) are located in the territory of Russia prior to dispatching or transferring.

1.10. Place of Supply of Services

Recognition of a place where services are supplied is quite important for VAT purposes. Services supplied in the territory of Russia are subject to Russian VAT. Services supplied outside Russia are outside the scope of Russian VAT. There are special and basic place of supply rules.

Special rules

Services relating to Immovable property

If work and services are directly related to immovable property located in the territory of Russia they are treated as supplied in Russia and, therefore, subject to Russian VAT. Among other things, such services include construction, assembly, repair, renewal and rental services.

Services relating to Movable Tangible property

Services connected with movable tangible property located in the territory of the Russian Federation are deemed to be supplied in Russia and, therefore, are subject to Russian VAT.
Services supplied where performed

Services actually provided in the territory of Russia and referred to the field of culture, art, education (training), athletics, tourism, recreation and sport are attributed to services supplied in Russia and, therefore, are subject to Russian VAT.

Services made where the customer belongs

Russia is regarded as the place of supply of certain services if the customer belongs to Russia (i.e. actually operates in the territory of Russia). Such services include, among other things, the following:

- transfer, provision of patents, licenses, trademarks, copyrights or other similar rights (royalty);
- software and databases development, their modification and adaptation;
- advisory, legal, accounting, audit, engineering, advertising, marketing, data processing, research and development and design services;
- provision of personnel if they work at a customer activity’s location;
- leasing out of movable property, except land transportation vehicles;
- services of an agent engaging, on behalf of the principal, another party (an entity or an individual) for performing the above specified services.

Special Rules Relating to Carriage

For the VAT purposes the place of activity performed by the supplier who lets use aircraft, sea ships or internal navigation vessels under lease contracts (time chartering) with a crew, and also supplying services in carriage, shall not be recognized the territory of the Russian Federation where the carriage is effected between ports situated outside the territory of the Russian Federation.

As for transportation services they are treated to be VATable if they are rendered by a Russian entity and

(a) place of departure and (or) destination is situated in the territory of the RF. If transportation services are rendered by a foreign legal entity not registered with Russian tax authorities, then they are treated to be VATable if places of departure and destination are situated in the territory of the Russian Federation.

Basic place of supply rule

Services made where the supplier belongs

Only other services which were not covered by special rules described above in this Item, shall be treated as supplied in the place where the supplier belongs.

Ancillary Services

Where the supply of particular services is ancillary to the supply of the main services, the place of such ancillary supply shall be deemed to be the place of supply of the main services.
Section II.
Output VAT

2.1. What is Output VAT?

VAT levied upon taxable supplies of goods and services is called output VAT. Output VAT may be also due in other circumstances, such as supply of goods (services) free of charge, taxable self-supplies or performance of construction and assembly works for own purposes.

2.2. Tax Period

Tax period is recognized as a quarter for all the taxpayers.

2.3. Tax base

The tax base is the value of a supply (VAT exclusive) on which VAT is due. The amount of output VAT shall be computed as multiplication of the tax base value by the relevant tax rate.

In certain cases (see Item 2.12 below) where the tax base includes VAT output tax must be computed applying VAT fraction procedure.

In the case when supplies are subject to VAT at different rates a taxpayer must provide separate accounting of tax bases and output taxes.

2.4. How output VAT may be accounted for

Output VAT must be accounted for if and when the tax event (tax point) occurred. You should account for output VAT using Supply accounting method.

Supply accounting method means that tax event (tax point), in relation to which the output VAT must be charged and invoiced, shall be recognized taking place if goods are dispatched or transported, services are provided to customers, etc.

When zero-rate supplies occur and the full set of backup documents is not prepared within 180 days the tax event must be accounted using Supply accounting method.
VAT tax base shall be calculated on the earliest of the following dates:

- the date of supply of goods, performance of works, providing of services, transferring of property rights;
- the date of payment (partial payment) related to future supply of goods, performance of works, providing of services, transferring of property rights.

Meantime MinFin explains that the date of supply is recognized as the date of the first primary document issued to the buyer of supplied goods, performed works, provided services or transferred property rights.

Payment (partial payment) related to future supply of goods (works, services, property rights) is regarded as receiving of payment by the seller or settlement of obligations effected through another procedure which does not contradict legislation.

2.6. Promissory Notes

If a customer draws a promissory note the supply is deemed paid out after the customer (drawer) pays the promissory note or the taxpayer transfers this promissory note to another person by endorsement.

2.7. The Goods not dispatched or transported

Where goods are not dispatched or transported, but ownership of goods is transferred, such transfer of ownership shall be equated with dispatch (transportation) for the purposes of VAT. The Tax point shall be recognized on the date of transferring the ownership to the customer.

2.8. Full Payment clause

According to provisions of the Tax Code object of taxation for VAT is determined as sale of goods (works, services, property rights). For VAT purposes “sale” means transfer of the right of ownership.

Supply agreement may contain so called Full Payment clause according to which the right of ownership is transferred to the buyer only after goods (works, services, property rights) are paid in full.

Consequently, in case when goods were dispatched or transferred to the customer but the right of ownership remains with the supplier (taxpayer) the tax event occurs when ownership is transferred to the customer.

However, under explanatory letters of Russian tax authorities and MinFin output VAT shall be accounted for as soon as goods are dispatched or transferred to customers disregarding the right of ownership.
So-called full payment clause in supply agreements can hardly delay the moment of charging VAT since the Tax Code makes the seller to calculate VAT due to the budget in the period of supply (See Item 2.4 above).

2.9. Payments in foreign currency

For VAT purposes receipts of a taxpayer in foreign currency shall be converted into rubles on the basis of the exchange rate of the RF Central Bank effective on the date of the receipt. Due to the Russian Foreign Currency Regulations there are few cases when a Russian resident may receive foreign currency in consideration for provided supplies subject to VAT.

2.10. Barter transactions

If the consideration for a supply is not in money (as in a barter transaction), the tax value of the supply is the monetary equivalent of the consideration.

You should normally calculate this by applying selling prices of identical or similar goods (services) which were prevailing in the preceding tax period, or, where these do not exist, on the basis of the market prices including excise duties (in the case of excisable goods and excisable mineral raw materials) and excluding VAT.

Starting 01/01/2009 VAT under barter transactions may be recovered without being transferred to bank accounts of the counterparts.

2.11. Deposit Paid Package

The deposit prices of the package shall not be included into the tax base in the event that it is returnable to the client.

2.12. Supplies Related Receipts (SRR) and VAT Fraction

According to the Russian Tax Code, when calculating VAT due to the budget, amounts relating to the payments for goods, work and services must be taken into account.

Such receipts include particularly amounts of interest on promissory notes and bonds contributed as payment for taxable supplies of goods and services.

In this case output VAT has to be calculated based on the price in which it is already included, i.e. a taxpayer must apply VAT fraction procedure using the following formula:

\[
\text{Amount of SRR} \times \text{appropriate tax rate} \div (100 + \text{tax rate})
\]

For example, you must apply VAT fraction procedure in relation to advance payment of 200 rubles taxable at 18% rate. So, the output VAT due to the budget equals to \((200 \times 18) \div 118 = 30.51\) rubles.
According to the latest Tax authorities’ explanatory letters penalties and fines received by virtue of delinquency (overdue payments) are not subject to VAT since they do not relate to consideration for the supplied goods and services. However, if such penalties are not penalties in substance, but constitute part of price determination, then such amounts should be included in VAT base.

Penalties and fines received by a customer (buyer) are not subject to VAT.

2.13. How output VAT must be computed if prices of the supplied goods and work are expressed in foreign currency but the consideration is made in Russian roubles?

When prices of goods (services) are expressed in foreign currency but consideration shall be made in rubles at a relevant agreed exchange rate, the taxpayer may suffer negative value differences or gain positive value differences. Value difference is the difference between rouble’s equivalent of tax base as on the tax event (tax point) and receipt of roubles when consideration is made.

Value differences should not be included in VAT base.

2.14. Giving away goods for Promotion and Advertising purposes

According to general rules of the Chapter 21 of the Tax Code supply of goods free-of-charge is subject to VAT. Meantime supply of goods as samples or in the frames of promotion and advertising campaign is recognized as non-taxable supply provided cost of such goods does not exceed RUR 100 per item.

Please note that in case a company has VATable and non-VATable operations it is obliged to keep separate accounting. Besides a part of input VAT related to the above free-of-charge samples cannot be refunded from the budget.

Meantime a taxpayer may decide to waive this exemption and to opt for the VAT. In this case the tax base shall be computed on the basis of the market prices of identical or similar goods.

2.15. Gifts

A gift is where the donor is not obliged to give it and the recipient is not obliged to do or give anything in return. A gift of goods is normally a taxable supply and VAT is due on the “deemed selling price” computed on the basis of the market prices of identical or similar goods (services) excluding VAT. VAT is not due on certain gifts of goods (see Item 1.4. above) since such supplies are outside the scope of VAT.

2.16. Goods supplied to induce retail purchases

If a taxpayer offers someone a “gift” on condition that they buy something from him, such supply may not be recognized as a gift. For example, a retailer may offer the second unit of an article free of charge in the case a customer buys the first unit. In this case it is considered that two units are sold as a set at a price of the first unit. However, conditions for selling such “sets” should be prescribed in Marketing policy.
2.17. Output VAT on self-supply

Transfer of goods for taxpayer’s consumption is treated as a **taxable self-supply** if expenses associated with such goods are not attributed to tax-deductible expenses (whether through amortization deductions or otherwise) for the purpose of the calculation of Corporate profit tax, the tax base shall be determined as the value of those goods (work and services) computed on the basis of the selling prices of identical or similar goods (services) which were prevailing in the preceding tax period, or, where these do not exist, on the basis of the market prices including excise duties (in the case of excisable goods and excisable mineral raw materials) and excluding VAT.

In the case construction and installation work is performed for own consumption, the tax base shall be determined as the value of work performed as calculated on the basis of all expenses actually incurred by the taxpayer in performing the work, including payroll expenses.

This amount should be included in VAT return and paid to the budget as a part of VAT due on a quarterly basis. VAT incurred on construction for own use may be reclaimed from the budget in the same tax period that it is charged.

2.18. Excise duty

In the case of goods subject to excise duty the tax value is the value determined according to the principles outlined above plus the duty.

2.19. Zero-rated Supplies

If you export goods outside Russia such supplies are zero-rated. You are given 180 days (from the date of export Customs clearance) to submit to the local tax inspectorate VAT return and a set of backup documents, which prove the fact of export. The set of such documents normally includes a contract, a statement of a bank account, certifying that consideration for exported goods is completed, a copy of the Customs declaration or the special list of Customs declarations justified by the Customs authorities proving factual export (transportation of goods outside of Russia), goods and transport documents (motor waybills).

If a taxpayer fails to submit a zero-rated supplies VAT return and the required backup documents by the mentioned deadline the considered supplies are subject to VAT at applicable rates.

Please note that advance payments related to export supplies are not subject to VAT.

2.20. Importation of the goods

When importing goods to Russia VAT is charged on the value of goods equal to the amount of contractual value of goods and customs duties.

2.21. Selling agent involved in supply of goods and services

VAT liability of a selling agent is limited only to his remuneration (agent commission).
2.22. Deposits

If you receive a deposit as a security to ensure the safe return of goods you have hired out and the deposit is either refunded when the goods are returned safely; or forfeited to compensate you for loss or damage, no tax point is created. In the case deposits are used (shall be used) as advance payments or may be treated as consideration for a supply, this creates a tax point when you receive them (See Item 2.12. above).
Section III.
Input VAT

3.1. What is input VAT?

Input tax is the VAT you are charged on your business purchases and expenses, including:

- goods and services supplied to you in the Russian Federation;
- goods you import from outside the Russian Federation.

3.2. Who can reclaim input VAT?

Only taxpayers who obtained tax registration are allowed to reclaim input VAT. Those taxpayers who were exempted from obligations of VAT taxpayers may not reclaim input tax.

3.3. What input VAT may be reclaimed?

Normally you can reclaim input tax that relates to your taxable supplies.

3.4. What input VAT may not be reclaimed?

You cannot reclaim VAT you have been charged and have paid in relation to goods and services not used for your taxable supplies. VAT you incurred for goods and services that were used for your taxable supplies and VAT exempt supplies or outside the scope of VAT supplies must be apportioned. Input VAT that is not taxable (reclaimable) shall be included into tax-deductible expenses for the purposes of the Corporate profits tax.

3.5. When input VAT shall be recognized as reclaimable?

You may reclaim input tax when the following conditions are met:

1. goods and services were actually received by the Company and were properly accounted;
2. you obtained duly drafted VAT invoice from your supplier;
3. the above goods and services will be used for VATable operations.

Please note that VAT could be recovered from the budget without having paid to suppliers or to the budget. Meantime, there are some situations when VAT can be reclaimed only after payment. In particular, they are as follows:
- VAT Withholding procedures (See Section IV below);
- Customs clearance of importation;
- Entertainment and traveling expenses deductible for profits tax purposes.

3.6. How does reclaim work?

You reclaim your input tax by deducting it from your output tax when you fill in your VAT return. If input VAT exceeds output VAT the difference may be reclaimed from the Budget.

3.7. Evidence required to claim input tax

VAT invoice, issued by your supplier, together with other relevant backup documents (goods documents, waybills, acts of acceptance the services, etc), proving that you actually received supplies, constitute valid evidence required by VAT law for reclaiming the input VAT.

In the event that VAT invoice has blank defects or not all necessary information is mentioned or marked in the VAT invoice such evidence is treated as invalid and, therefore, input VAT may not be reclaimed.

3.8. Goods returns

In the case when you have already accounted for output VAT and paid it to the budget but your customer returned back the goods by virtue of insufficient quantity, low-quality, wrong assortment, damaged packaging, that output VAT shall be treated as input tax and you may reclaim it in the tax period when such return took place. You may reclaim this amount no later than one year after the goods were returned back to you.

If your customer returns goods by another reason then such return shall be treated as reverse supply, i.e. the customer acts as a seller and the former supplier acts as a buyer.

3.9. Taxable Self-supplied construction

Output tax that relates to taxable self-supplied construction is calculated on the last day of each tax period, while paid VAT can be treated as input VAT in the same tax period.

3.10. Input tax and acquisition of fixed assets and intangible assets

VAT you have been charged when purchasing fixed assets or intangible assets may be reclaimed as input tax as soon as the relevant assets are entered into accounting records and put into operation.

3.11. Reclaim of tax charged on advances received and paid

VAT charged and paid by you by virtue of receipt of advances from your customers shall be treated as input VAT as soon as you supply goods and services in relation to which those advances were paid or you return back these advances in the result of recession from a contract.
VAT charged on advance payment transferred to the suppliers can be reclaimed when paid in case the following conditions are met:

1. contract with supplier provides for condition on advance payment;
2. you obtained duly drafted VAT invoice on advance from your supplier;
3. relevant goods and services will be used for VATable operations.

3.12. Input VAT and export supplies of goods

Input tax that relates to your zero-rated supplies may be claimed upon submitting separate lists in regular VAT return and the valid evidence required to prove your right to apply zero rate VAT (See Item 2.19. above). Nevertheless, the procedure of VAT refund is extremely complicated and normally time-consuming.

3.13. Limitation of input tax reclaim

The tax legislation limits tax deductibility of certain expenses, such as business trip expenses, business entertainment expenses, advertising expenses. Input tax charged on these taxable supplies may be reclaimed only in that part which correlates with tax-deductible part of expenses for the purposes of the Corporate profit tax.

3.14. Time limits of input VAT deduction (reclaim)

Under general provisions the right to deduct (reclaim) input VAT may be exercised within three years after such right occurred through submission of adjusted tax return for relevant tax period.

3.15. Input VAT apportionment

When apportionment of input VAT is required?

A taxpayer must perform apportionment of input VAT in the case when he makes taxable and non-taxable supplies and/or supplies being outside the scope of the tax. Such apportionment is also required when a taxpayer makes domestic and export supplies since amounts of input tax must be indicated in two different parts of VAT return.

How does apportionment work?

The Tax Code lays down a standard method of apportionment using the relationship of the value of taxable supplies compared to the value of total supplies (both taxable and non-taxable) made within the tax period.

Input VAT charged for goods and services that were used (a) exclusively for taxable supplies and (b) exclusively for non-taxable supplies and/or out of the scope of VAT supplies shall be accounted for directly.

Recoverable input VAT related to goods and services that were used both for making taxable supplies and non-taxable supplies and/or out of the scope of VAT supplies shall be computed by applying apportionment mentioned above in this Item.
Input VAT charged for goods and services that were used for making domestic supplies and export supplies is recoverable. As it was mentioned above input tax that relates to export supplies must be indicated in a separate lists of VAT return. The relevant apportionment may be performed by applying the method mentioned above in this Item.

**De minimis limits**

Apportionment of input VAT shall not be applied to those tax periods in which the proportion of goods and services that were used in making non-taxable supplies does not exceed 5 per cent of the total value of the acquired goods and services, which were used for making overall supplies of the said tax periods. In this case all amounts of input tax shall be deductible.

**What happens if you fail to apportion input VAT?**

If you fail to perform apportionment of input VAT you are not allowed to reclaim any amounts of input VAT and such amounts of input tax are not attributed to tax-deductible expenses for the purposes of the Corporate profits tax.

**3.16. Promissory notes and input VAT**

In the case a taxpayer draws promissory note against invoice for received supplies of goods and services input VAT related to these supplies may be reclaimed irrespectively of the date when promissory note will be paid out.

**3.17. Restoration of deducted input tax**

If a taxpayer has deducted input VAT and goods and services were afterwards used and enjoyed in the course of furtherance of non-taxable supplies or supplies which are outside the scope of VAT, the taxpayer must restore deducted input tax and pay it to the budget.

The Tax Code provides restricted list of cases when restoration of deducted input VAT is required. They are the following:

- a purchased object of property, intangible assets, property rights was bought for furtherance of taxable supplies and later were used as contribution to the Charter Capital of another company.

- purchased goods (works, services), including fixed assets, intangible assets, property rights were used merely for furtherance of taxable supplies and later were used for non-taxable supplies or supplies which are outside the scope of VAT.

- transfer of advance payments by a buyer.

- decreasing prices of supplied goods (works, services);

- purchased goods (works, services), including fixed assets, intangible assets, property rights were used merely for furtherance of taxable supplies and later were used for supplies which are subject to VAT at 0% rate.
- situations where taxpayers receive federal subsidies to cover the VAT-inclusive cost of goods, work or services.

However, MinFin insists that taxpayers must also restore deducted input VAT in other cases which are not stated by the Tax Code. Among them are losses due to larceny of goods or disasters.

### 3.18. Deduction of Input VAT in the absence of supplies

By explanations of Russian tax authorities and MinFin a taxpayer is allowed to recover input VAT if no supplies were made in the tax period when input VAT became reclaimable. At the same time MinFin recommend tax authorities to pay special attention to recovering big amounts of input VAT if no supplies are made in order to avoid abuses.

### 3.19. Deduction of VAT and barter transactions

Where a taxpayer uses its own assets (including promissory notes issued by a third party) in consideration for received goods and services, amounts of input VAT shall be calculated on the basis of the balance sheet value of those assets which are transferred in payment.

Under barter transaction you act both as a supplier and as a customer. According to Tax authorities’ explanations in the case your supplies are subject to VAT at standard rate and supplies of your customer are subject to reduced rated VAT amount of input VAT you are allowed to deduct equals to output VAT your customer-supplier has accounted for.

Therefore, in the case goods and services subject to different tax rates are involved it is much better to avoid barter transaction, supply goods and services under separate ordinary contracts off-setting the supplies and mutual debts.

Starting 01/01/2009 VAT under barter transactions may be recovered without being transferred to bank accounts of the counterparts.
Section IV.
VAT Withholding

4.1. When must VAT withholding be applied?

If a foreign company makes taxable supplies of goods and services in the territory of Russia and a foreign company is not registered with Russian local tax authorities, the purchasers of such goods and services, registered taxpayers (legal entities and individual entrepreneurs) act as tax agents.

A tax agent is obliged to compute, withhold the tax and transfer it to the federal budget of Russia.

4.2. What is the tax base for VAT Withholding?

The tax base of a taxpayer, foreign company, equals to the value of the supplies. In contrast to EU VAT “reverse charge” the tax base is recognized including VAT. Tax agent must compute the output VAT applying VAT fraction procedures (See Item 2.12. above).

4.3. Who is a tax agent?

Under provisions of the Tax Law individual entrepreneurs or legal entities (Russian and overseas companies), registered with Russian local tax authorities, who entered into contracts with foreign companies and purchase goods and services from them, is obliged to fulfill obligations of a tax agent regarding VAT.

4.4. What happens if goods and services are purchased via buying agent?

In the event when goods are imported by a Russian company through a Russian intermediary (commissioner, delegate, agent), VAT is paid by Declarant at Customs. Provided Russian entity pays for VATable services supplied by foreign company through Russian intermediary the amount of VAT is to be withheld by a purchaser (a tax agent) and transferred to the budget at the moment funds are transferred to a foreign company.

4.5. When must a tax agent withhold output VAT?

In accordance with Article 174 of the Russian Federation Tax Code the output VAT is to be withheld by a tax agent and transferred to the budget at the moment funds are transferred to a foreign company.

4.6. What happens if consideration for supplied goods and services is not made in money?

According to Russian arbitration court practice, if a contract with a foreign company provides for in-kind settlements, the purchaser of goods and services has no possibility to withhold funds in
order to transfer them to the budget and, therefore, purchasers of such goods, work and services cannot fulfill their tax agent’s liabilities with respect to VAT. In this case purchasers of goods and services are obliged to inform tax authorities at the place of registration of impossibility to withhold the value added tax from a foreign company. Therefore, the foreign company is still in debt to the budget on output VAT. This might be crucial in the case when a foreign company possesses some property located in Russia, and Russian tax authorities may distrain upon such property.

Please note that the foreign company’s VAT liability shall be deemed fulfilled if and when the tax agent has withheld VAT. Therefore, it is quite important to stipulate VAT withholding procedures in the contracts with Russian companies and to confirm such withholding by documents. The RF Tax Code does not provide for the form of such a document. In our opinion, this document may be prepared in a free form and must certify the date and the fact of VAT withholding, as well as the rate and the amount of withheld VAT.

4.7. What happens if a foreign company has its tax registered permanent establishment in Russia and makes taxable supplies?

Due to tax authorities’ explanations output VAT must be withheld by a tax agent even in the event when a foreign company has a permanent establishment in Russia registered with Russian tax authorities, and this permanent establishment is not involved (wholly or partially) in supply of goods and services. We would like to emphasize that tax authorities did not instruct how a tax agent or a foreign company must prove that a permanent establishment is not involved wholly or partially in taxable supplies.

4.8. VAT grossing-up clause

It might be advisable to provide for VAT grossing-up clause in contracts with Russian companies.

We may cite as an example the following wording: “In case income of the seller is subject to VAT and other similar taxes, being withheld by the buyer (client) out of the funds payable to the seller, the price (fees) shall increase by the relevant amount (amounts) without prior consent of the buyer”.

4.9. Restrictions to applying zero rate

According to the VAT law tax agent may apply only standard rate and reduced rate to taxable supplies of a foreign company when performing VAT withholding procedures. However, exemption of the considered supplies from VAT is applicable provided that all requirements mentioned above are met.

4.10. Supplies are made through a selling agent

Where a foreign company which is not registered with Russian tax authorities supplies goods and services through a selling agent, this intermediary (commissioner, delegate, agent) shall be recognized as a tax agent with respect of VAT. The tax base shall be equal to cost of goods supplied including excises and excluding VAT.
Section V.
VAT invoices

5.1. What is a VAT invoice?

Any supplies of goods and services, with exception of sale of securities, shall be reflected in VAT invoices. This applies to standard-rated, reduced-rated, zero-rated and exempted goods and services.

A VAT invoice is a document containing certain information about supplied goods or services. A buyer of goods or services needs VAT invoices to reclaim, as input tax, the VAT he has been charged by the supplier.

Companies that apply Simplified Taxation System and Imputed Tax System do not issue VAT invoices since they are not taxpayers of VAT. Besides VAT invoices are not required in retail trading with individuals.

5.2. When must a VAT invoice be issued?

A supplier must issue two copies of VAT invoice and send the original copy to the buyer within five days after the tax event occurred.

Besides, VAT invoice must be issued by the supplier within five days after the advance is received.

5.3. What information is required on a VAT invoice?

The following must be indicated in the invoice:

1. the sequential number and date of issue of the invoice;
2. the name, address and Taxpayer’s identification numbers (TIN) of the supplier and the purchaser and the Code of the Reason for Registration (CRR);
3. the name and address of the consignor and of the consignee;
4. the number of the payment and settlement document where advance or other payments are received in respect of future supplies of goods (performance of work, rendering of services);
5. a description of goods supplied (dispatched) (a description of work performed or services rendered) and unit of measurement;
6. the quantity (volume) of goods (work and services) supplied (dispatched) in accordance with the invoice on the basis of the accepted units of measurement;
7. Currency name;
8. the price (tariff) per unit of measurement under the agreement (contract) excluding tax or, where State regulated prices (tariffs) which include tax are used, including the amount of tax;
9. the value of goods (work and services) for the entire quantity of goods supplied (dispatched) in accordance with the invoice (work performed, services rendered), excluding tax;
10. the amount of excise duty in the case of excisable goods;
11. the tax rate;
12. the amount of tax charged to the purchaser of goods (work and services);
13. the value of the entire quantity of goods supplied (dispatched) in accordance with the invoice (work performed, services rendered), including the amount of tax;
14. the country of origin of goods;
15. the number of the customs declaration.

The VAT invoice shall be signed by the director and the chief accountant of the legal entity or by other officers so authorized in accordance with an internal order of the organization. Where an invoice is issued by an individual entrepreneur, the invoice shall be signed by the individual entrepreneur indicating the particulars of the certificate of State registration of that private entrepreneur. You may find a form of a VAT invoice in the Appendix #4 below.

Please note that in the case a VAT invoice has blank defects or does not indicate all required information, mentioned above, input VAT may not be reclaimed.

5.4. Invoicing in a foreign currency

Where, under conditions of a transaction, an obligation is expressed in foreign currency, amounts indicated in the invoice may be expressed in foreign currency, however, both output and input VAT being recorded in books in roubles.

5.5. Self-billing

Self-billing is required when a taxpayer performs construction and installation for own consumption or uses goods for owns requirements. A tax agent who purchases goods and services from a foreign company must also issue a VAT invoice indicating “FOR A FOREIGN COMPANY”.

Another case of self-billing is receipt of advance payment (the second copy of VAT invoice on advance is required for providing the customer with it).

5.6. Who else must issue VAT invoices?

A VAT tax agent must issue VAT invoice indicating “On behalf of a foreign legal entity” within 5 days after he withheld output VAT and transferred it to the budget.
5.7. Invoicing for VAT exempt supplies

Exempt supplies must be invoiced with indicating the words “NOT VAT TAXABLE SUPPLIES”.

5.8. Transmission of VAT invoices

VAT invoices may be issued on hard copies and (or) electronically. Electronic VAT invoices may be drawn up if all of counterparties agree and have compatible technical devices for acceptance and processing of VAT invoices.

5.9. VAT invoices and agents

In the case supplies are made by a selling agent who acts for, or represents, other persons, VAT invoices for supplied goods and services are to be issued to customers by agent. The principal must issue VAT invoice and address it to the agent indicating data mentioned in the agent’s VAT invoice.

Buying agents provide their principals with a copy of VAT invoices received from the suppliers of goods and services that were bought for and at the expense of their principal.
Section VI.
Correction VAT invoices

6.1. What is a correction VAT invoice?

Starting from 1 October 2011 a new type of document for VAT administration purposes is applied – «correction VAT invoice». A correction VAT invoice is to be provided by a seller to a buyer within 5 calendar days when the cost of already shipped goods (performed work, rendered services), transferred property rights is changed, in particular:

- when the price or a tariff are changed;
- when quantity of the goods or volume of work/services are corrected.

It should be noted that bonuses and premiums provided by a supplier to a customer for the fulfillment of certain contract terms, including the volume premiums, do not affect the VAT base and, therefore, do not lead to provision of a correction VAT invoice.

VAT base and VAT recoveries shall be adjusted (and, therefore, a correction VAT invoice should be issued) if the contract directly provides that premiums and bonuses paid reduce the price of goods (services, work) supplied to a customer.

If the price decreased

A seller is entitled to claim for VAT recovery for the tax difference calculated on the price of shipped goods before and after such decrease.

The buyer shall restore input VAT in the amount of the tax difference calculated on the basis of the price of shipped goods before and after the price adjustment.

The moment of the VAT restoration for the buyer shall be the earliest of the following dates:

- the date of receipt of the primary documents by the buyer with regard to price decrease; or
- the date of receipt of the correction VAT invoice by the buyer.

If the price increased

A seller shall include the amount of cost difference before and after such increase into the VAT base in the period of drawing up documents, which are used as a basis for issue of a correction VAT invoice.
The buyer, based on the received correction VAT invoice, shall claim for additional VAT recovery in the amount of tax difference calculated on the basis of the price of shipped goods before and after such increase.

An official form of correction VAT invoice is approved by the RF Government. You may find a form of a correction-VAT invoice in the Appendix #5 below.

6.2. What is a unified correction VAT invoice?

Starting from 1 July 2013 a seller has the right to provide a unified correction VAT invoice to two or more VAT invoices provided earlier. A unified correction VAT invoice should be issued by a seller within 5 calendar days from the date of submission the document confirming the agreement of a buyer to change the price of the goods (works, services).
Section VII.

VAT records. VAT returns. Payment (refund) of VAT to (from) budget

7.1. What records must taxpayer keep?

All taxable persons must keep and preserve certain records of all taxable goods and services which were received or supplied in the course of business transactions that includes standard-rated, reduced-rated and zero-rated supplies.

Taxpayer must also keep records of any exempt supplies, outside the scope of VAT supplies.

Taxpayer must register VAT invoices issued to customers and VAT invoices received from suppliers.

Totals of input tax and output tax for each tax period shall be indicated in VAT returns.

All these records must be kept up to date and have sufficient details to calculate correctly the amount of VAT payable to, or refundable from, the Federal Budget.

7.2. Computer records

You may keep your records on a computer, for example, on magnetic tape, disc etc, provided they can be readily converted into a satisfactory legible form and made available to tax authorities upon their request.

7.3. Keeping copies of VAT invoices

Taxpayer must keep copies of all VAT invoices issued and received during 4 years from the date of issue.

If you are a cash supplier you must keep copies of all till rolls and product code lists.
7.4. VAT returns

There are two types of VAT returns. The first shall be completed in relation to standard-rated and reduced-rated supplies and including lists for zero-rated supplies. The second return is prepared for companies and individual entrepreneurs that import goods from the territory of Belarus.

7.5. When must VAT returns be submitted?

You must complete VAT return for each tax period and submit it to the local tax inspectorate by 20th of a month coming after the tax period (quarter). Please note that companies with number of employees exceeding 100 persons must send tax returns in electronic format. However, starting from 1 January 2014 all taxpayers will be obliged to file VAT returns electronically.

Starting 3rd quarter 2008 VAT is payable in the amount of 1/3 of VAT due for the quarter by 20th of each month of the following quarter. For example, VAT for the 3rd quarter 2008 must be paid by 20 October, 20 November and 20 December in equal parts.

Earlier VAT was paid by 20th of the month following the tax period in full amount.

7.6. “Nil” VAT returns

Taxpayer must still complete the regular VAT return even if no supplies were made in the tax period.

7.7. Estimated figures on VAT returns

In the case a taxpayer did not perform accurate and proper accounting records of the supplies and other taxable items the tax authorities are allowed to estimate amounts of tax payable to the budget by means of calculation on the basis of data relating to other similar taxpayers.
Appendix

Appendix #1
VAT Reduced – rated Supplies

Tax shall be levied at the rate of 10 per cent with respect to the sale of:

1) the following foodstuffs:
   - live cattle and poultry;
   - meat and meat products (except for delicacies: fillet steak, veal, tongue, sausage - best-quality raw smoked, best-quality raw smoked semi-dry, best-quality raw cured stuffed; smoked products of pork, mutton, beef, veal, poultry - balyk, carbonado, neck, gammon, pastrami, fillet; baked pork and beef; tinned foods - ham, bacon, carbonado and tongue in sauce);
   - milk and dairy products (including ice cream produced on the basis thereof, with the exception of ice cream produced on a fruit and berry base and fruit-flavoured and edible ice);
   - eggs and egg products;
   - vegetable oil;
   - margarine;
   - sugar, including raw sugar;
   - salt;
   - grain, mixed fodder, fodder mixes, grain by-products;
   - oilseeds and processed products derived there from (oilseed meal, oil-cake);
   - bread and bakery products (including buns, rusks and rolls);
   - groats;
   - flour;
   - pasta;
   - live fish (with the exception of valuable varieties: whitefish, Baltic and Far East salmon, sturgeons (beluga, bester, osyotr, stellate sturgeon, sterlet), semga salmon, trout (with the exception of sea trout), nelma, Siberian salmon, king salmon, silver salmon, muksun, omul, Siberian and Amur whitefish and chir);
   - seafood and fish, including cooled and frozen fish and other processed fish, herring, tinned food and preserves (with the exception of delicacies: sturgeon and salmon roe; whitefish, Baltic salmon, sturgeons - beluga, bester, osyotr, stellate sturgeon, sterlet; semga salmon; cold-smoked back and belly of nelma; lightly salted, medium-salted and salmon-salted Siberian salmon and king salmon; cold-smoked back of Siberian salmon, king salmon and silver salmon; cold-smoked belly of Siberian salmon and side of king salmon; cold-smoked back of muksun, omul, Siberian and Amur whitefish and chir; preserves of fillets / pieces of Baltic and Far East salmon; crab meat and selections of boiled and frozen crab extremities; lobster);
   - baby food products and food products for diabetics;
   - vegetables (including potatoes);

2) the following goods for children:
- knitted wear for newborns and children of nursery, pre-school, junior and senior school age groups: knitted outer clothes, knitted underclothes, hosiery, other knitted wear: gloves, mittens and head-dresses;
- ready-made garments (with the exception of garments of natural fur and natural leather) for newborns and children of nursery, pre-school, junior and senior school age groups: outer clothes (including dress and suit groups), underwear, head-dresses, clothes and articles for newborns and children of nursery age;
- footwear (with the exception of sports shoes): booties, baby shoes, pre-school and school shoes; felt shoes; rubber shoes: toddlers', children's, school;
- children's beds;
- children's mattresses;
- prams and pushchairs;
- school exercise books;
- toys;
- plasticine;
- pencil boxes;
- counting sticks;
- school abaci;
- school diaries;
- drawing pads;
- drawing albums;
- sketch albums;
- folders for exercise books;
- covers for textbooks, diaries and exercise books;
- number and letter cases;
- nappies.

3) the following related to publishing:
   - periodical printed publications (except erotic publications and publications provided that advertisement does not exceed 40% of the issue);
   - books, related to education, science and culture (except erotic and advertising books).

4) Medicines and medical purpose goods produced both in Russia and abroad;

5) pedigree animals.

Types of such products shall be established by the Government of the Russian Federation.
Tax shall be levied at the rate of 0 per cent with respect to the sale of:

1) goods which have been placed under the customs status of export provided that they are actually shipped out of the customs territory of the Russian Federation and the envisaged documents are presented to the tax authorities;
2) international transportation of goods;
3) work performed by organizations of oil and oil products pipeline transport with respect to transportation, transshipment and (or) overload of oil and oil products;
4) services involving setting up transportation of natural gas by pipeline transport from the territory of the Russian Federation (to the territory of the Russian Federation), and services involving transportation (setting up transportation) of natural gas by pipeline transport to the territory of the Russian Federation for processing on territory of the Russian Federation;
5) services rendered by an organization managing the unified national (Russian) electric network for delivery of electric energy via unified national (Russian) electric network from electric power system of the Russian Federation to electric power system of foreign states;
6) works (services) performed (rendered) by Russian organizations (excluding pipeline transport organizations) in sea, river ports for reloading and storage of goods transferring through the border of the Russian Federation where the product documents specify that the points of departure and (or) destination is situated outside the territory of the Russian Federation;
7) works (services) involving processing of goods which have been placed under the customs status of processing on the customs territory;
8) services for provision of railway vehicles and (or) containers and transport-shipment services rendered by Russian organizations or individual entrepreneurs (owing or leasing railway vehicles or containers) for shipment (transportation) of exported goods or products of processing provided that points of departure and destination are situated inside the territory of the Russian Federation;
9) works (services) performed by organizations of internal water transport with respect to goods which have been placed under export customs regime while being shipped (transported) inside the territory of the Russian Federation from the point of departure to the point of disembarkation or overload (transshipment) to marine vessels, sea-river crafts or other types of transport;
10) work (services) which is (are) directly connected with the shipment (transportation) via the customs territory of the Russian Federation of goods which have been placed under the customs status of transit via that territory;
11) works (services) performed by organizations or individual entrepreneurs involving provision of railway vehicles and (or) containers for rendering shipment (transportation) services via the customs territory of the Russian Federation and transport-shipment services connected with shipment or transportation of goods by railway transport via the customs territory of the Russian Federation;
12) services involving the carriage of passengers and baggage provided that the point of departure or the destination of the passengers and baggage is situated outside the territory of the Russian Federation, where standard international documents of carriage are issued in respect of such carriage;
13) work (services) which is (are) performed (rendered) directly in outer space, and the range of preparatory terrestrial work (services) which is technologically determined by and indissolubly connected with the performance of work (rendering of services) directly in outer space;

14) precious metals by taxpayers which extract them or produce them from scrap and waste containing precious metals to the State Fund of Precious Metals and Precious Stones of the Russian Federation, the Central Bank of the Russian Federation and banks;

15) goods (work and services) for official use by foreign diplomatic and equated representations or for the personal use of the diplomatic and administrative and technical staff of such representations, including members of their families who reside with them. The sale of the goods (performance of work, rendering of services) referred to in this subsection shall be taxable at the rate of 0 per cent in those cases where the legislation of the relevant foreign state establishes a similar procedure for diplomatic and equated representations of the Russian Federation and diplomatic and administrative and technical staff of such representations (including members of their families residing with them) or where a provision to that effect is contained in an international agreement (treaty) to which the Russian Federation is a party. The list of foreign states to whose representations the norms of this subsection apply shall be determined by the federal executive body which regulates international relations in conjunction with the Ministry of Finance of the Russian Federation.

The procedure for the application of this subsection shall be established by the Government of the Russian Federation.

16) stocks (fuel, flammable oiling which are used for sea-, air- and sea-river crafts) transported outside Russia which have been placed under the customs status of stocks transit.

17) transportation services carried out by the Russian railway carriers related to exported goods or products of processing in the customs territory of the Russian Federation. Zero-rate is also applied to other services connected with such transportation (including management transportation services, escorting and loading services)

18) vessels which are subject to registration in the Russian international register of vessels in case of submitting documents stipulated by Art. 165 of the Tax Code to tax authorities;

19) goods (works, services) for official usage by international organizations and their representative offices performing activity on the territory of the Russian Federation according to the provisions of international agreements of the Russian Federation stipulating tax exemption;

20) works (services) involving shipment (transportation) of goods from the territory of the Russian Federation or to the territory of the Russian Federation by marine vessels or sea-river crafts according to time-charter agreements.
Appendix #3

VAT Exempt Supplies (incomplete list)

1. Supply of services involving the rent of office and (or) residential premises to foreign citizens or organizations which are accredited in the Russian Federation.
2. Supply of the following medical goods of domestic and foreign manufacture according to a list to be approved by the Government of the Russian Federation:
   - essential and vital medical equipment;
   - prosthetic and orthopedic appliances, raw materials and other materials for the manufacture thereof and semi-finished articles for such appliances;
   - technical equipment, including motor vehicles, and materials which can be used solely for the prevention of disability or the rehabilitation of disabled persons;
   - lenses and frames for spectacles (with the exception of sunglasses);
3. Supply of medical services rendered by medical organizations and (or) institutions, with the exception of cosmetic, veterinary and sanitary and epidemiological services. The limitation which is established by this subsection shall not apply to veterinary and sanitary and epidemiological services which are financed from the budget. The considered medical services shall include:
   - services of medical institutions which are covered by the list of services provided under the terms of compulsory medical insurance;
   - services rendered to the public by medical and preventive health care institutions involving diagnosis, preventive care and treatment, irrespective of the form and source of payment for those services, according to a list to be approved by the Government of the Russian Federation;
   - services of medical organizations involving the collection of blood from members of the public which are rendered under agreements with permanent health care institutions and polyclinic divisions;
   - first aid services rendered to the public;
   - services involving attendance of medical staff at a patient's bed;
   - services of pathological-anatomical offices;
   - services of medical institutions which are rendered to pregnant women, newborns, disabled persons and narcological patients;
4. Supply of services involving care for the sick, disabled and elderly which are provided by State and municipal social welfare institutions to persons whose need for care is confirmed by appropriate statements of opinion of health authorities and social welfare bodies and (or) federal medical social welfare authorities.
5. Supply of services involving attendance to children in pre-school institutions and the organization of activities with minors in study groups, clubs (including sports clubs) and art schools.
6. Supply of food products which are directly produced by canteens of educational and medical organizations which are sold by them within those institutions, and food products which are directly produced by public catering organizations and which are sold by them to the above-mentioned canteens or organizations.
7. Supply of services involving the preservation, updating and use of archives which are rendered by archive institutions and organizations.
8. Supply of services involving the carriage of passengers:
   - by public municipal passenger transport (except for taxis, including fixed-route taxis). For the purposes of this Article services involving the carriage of passengers
by public municipal passenger transport shall include services involving the carriage of passengers in accordance with standard conditions of passenger carriage and standard fares established by local government bodies, including with the granting of all travel concessions which have been approved in accordance with the established procedure;
- by sea, river, rail or road transport (except for taxis, including fixed-route taxis) on local transport services provided that passenger carriage is provided on the basis of standard fares with the granting of all travel concessions which have been approved in accordance with the established procedure.

9. Supply of ceremonial services, work (services) involving the manufacture of gravestones and the design of graves, and the sale of funeral accessories (according to a list to be approved by the Government of the Russian Federation).

10. Supply of postage stamps (except for collectors’ stamps), stamped postcards and stamped envelopes and lottery tickets of lotteries conducted by decision of the Government of the Russian Federation and (or) legislative (representative) bodies of constituent entities of the Russian Federation.

11. Supply of services involving the provision for use of residential accommodation in housing facilities of all forms of ownership.

12. Supply of coins of precious metals which are the legal means of cash payments of the Russian Federation or a foreign state (group of states).

13. Supply of share interests in the charter (pooled) capital of organizations, shares in mutual funds of co-operatives and mutual investment funds, securities and term transaction instruments (including forward and futures contracts and options).

14. Supply of repair and technical support services of goods and household equipment including medical goods, free of charge and within the warranty period, including cost of spare parts and details to them.

15. Supply of educational services by non-commercial educational organizations in the areas of public educational and (or) professional programs (basic and (or) supplementary), professional development programs which are indicated in the license or educational process, as well as additional educational services corresponding to the level and the trend of educational programs, which are indicated in the license, with the exception of advisory services, and services involving the rent of premises. The sale by non-commercial educational organizations of goods (work and services), whether of own production (produced by educational enterprises, including job training workshops as part of the main and supplementary training process) or acquired from third parties shall be taxable irrespective of whether or not income from such sale is allocated to that educational organization or used for the immediate requirements of the development and improvement of the educational process, if other is not stipulated by the Tax Code

16. Services rendered by authorized bodies for which a State duty is levied, all types of license, registration and patent duties and fees, and duties and fees which are charged by State bodies, local government bodies and other authorized bodies and officials on granting particular rights to organizations and physical persons (including timber duties, rental payments for the use of forests and other payments to budgets for the right to use natural resources).

17. Supply of vehicle inspection services rendered by vehicle inspection operators in accordance with the legislation in the area of vehicle inspection;

18. Supply of goods which have been placed under the customs status of duty-free shop.
19. Supply of services rendered by cultural and art institutions in the sphere of culture and art, which shall include:

- services involving the hiring out of audio and video media from the stocks of those institutions, sound engineering equipment, musical instruments, stage production resources, costumes, footwear, theatre properties, dummies, wigmakers' accessories, cultural equipment, animals, exhibits and books; services involving the making of copies for educational purposes and of text-books and photocopying, reproduction, xeroxing and microcopying from printed matter, museum exhibits and documents from the stocks of those institutions; services involving the sound recording of stage spectacles, cultural and educational events and entertainment shows and involving the preparation of copies of sounding recordings from the sound recording libraries of those institutions; services involving the delivery to and collection from readers of printed matter from library stocks; services involving the preparation of lists, reference notes and catalogues of exhibits, materials and other articles and collections which make up the stocks of those institutions; services involving the rent of stage and concert areas to other budgetary cultural and art institutions, and services involving the distribution of the tickets which are referred to in paragraph 3 of this subsection;

- the sale of entry tickets and season tickets for stage spectacles, cultural and educational events and entertainment shows and excursion tickets the form of which has been approved in accordance with the established procedure as a strict reporting form.

20. Supply of services which are rendered directly at airports of the Russian Federation and in the airspace of the Russian Federation involving the servicing of aircraft, including air navigation services.

21. Supply of articles of a religious nature (in accordance with a list to be approved by the Government of the Russian Federation on a submission from religious organizations (associations)) which are produced and sold by religious organizations (associations) within the framework of religious activities, with the exception of excisable articles, and the organization and conduct by such organizations of religious rites, ceremonies, prayer meetings or other religious acts.

22. Performance by banks of banking operations (with the exception of collection), including: the attraction of monetary resources from organizations and physical persons into deposits; the investment of monetary resources attracted from organizations and physical persons in the name of and at the expense of banks; the opening and maintenance of bank accounts for organizations and physical persons; the carrying-out of settlements on the instructions of organizations and physical persons, including correspondent banks, on their bank accounts; the provision of cash services to organizations and physical persons; the purchase and sale of foreign currency in cash and non-cash forms (including the rendering of intermediary services in respect of operations involving the purchase and sale of foreign currency).

23. Supply of insurance, co-insurance and re-insurance services by insurance organizations and the rendering of non-State pension provision services by non-State pension funds.

24. Supply of services by lawyers and by associations of lawyers to their members.

25. Supply of financial services involving the provision of a loan in monetary form.

26. Sale of living premises (houses and states in these houses).
27. Organization of pari-mutuels and other games based on risk (including with use of slot machines) by legal entities or individual entrepreneurs, carrying out of the lotteries under decision of authorized state body, including sale of lottery tickets.
28. Realization of breakage and waste of ferrous and nonferrous metals.
29. Transfer of “know-how”, databases, software, etc. and royalties under license agreements on the above intangibles.
30. Transfer of the goods (works, services) for advertising purposes provided cost of one unit does not exceed RUR 100.

The operations listed above are not subject to VAT in case of a taxpayer obtains the appropriate licenses required by legislation of the Russian Federation.

Exemptions mentioned in this list shall not apply where entrepreneurial activities are carried out in the interests of another person on the basis of contracts of delegation, commission agreements or agency agreements, unless otherwise stipulated by Tax Code.
Appendix #4

Sample of a VAT invoice

**Invoice No. ____ of "__" ___________________(1)**

**Correction No. ____ of "__" ___________________ (1a)**

<table>
<thead>
<tr>
<th>Seller______________________________</th>
<th>(2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Address______________________________</td>
<td>(2a)</td>
</tr>
<tr>
<td>Seller's TIN/CRR_______________________</td>
<td>(2б)</td>
</tr>
<tr>
<td>Consignor and its address____________</td>
<td>(3)</td>
</tr>
<tr>
<td>Consignee and its address____________</td>
<td>(4)</td>
</tr>
<tr>
<td>To payment-accounting document No____________ of_____________</td>
<td>(5)</td>
</tr>
<tr>
<td>Buyer______________________________</td>
<td>(6)</td>
</tr>
<tr>
<td>Address____________________________</td>
<td>(6а)</td>
</tr>
<tr>
<td>Buyer's TIN/CRR______________________</td>
<td>(6б)</td>
</tr>
<tr>
<td>Currency: name, code_______________</td>
<td>(7)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Name of commodity (description of work or services performed), property rights code</th>
<th>Unit of measurement</th>
<th>Quantity (volume)</th>
<th>Price (tariff) per unit or measure</th>
<th>Cost of goods (works, services), total excluding tax</th>
<th>Including excise</th>
<th>Tax rate</th>
<th>Tax amount</th>
<th>Cost of goods (work, services), property rights total including tax</th>
<th>Country of origin</th>
<th>Number of the cargo customs declaration</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>2а</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>8</td>
<td>9</td>
<td>10 10а 11</td>
</tr>
<tr>
<td>Total for payment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Head of the organization (signature) (full name)  
(Individual businessman) (signature) (full name)  
Chief accountant (signature) (full name)  
(requisite elements of the certificate on the state registration)

**Note:** The first copy - to the purchaser and the second copy - to the seller.
Appendix #5

Sample of a correction VAT invoice

Correction VAT-INVOICE No. ___ of "__" _____________________ (1)

Correction of a correction VAT-INVOICE No. ___ of "__" ____________ (1a)

To a VAT-INVOICE (VAT-invoices) No. ______ of _______, considering

correction No. ______ of _______ (1б)

<table>
<thead>
<tr>
<th>Seller</th>
<th>Address</th>
<th>Seller's TIN/CRR</th>
<th>(2)</th>
<th>(2а)</th>
<th>(2б)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buyer</td>
<td>Address</td>
<td>Buyer's TIN/CRR</td>
<td>(3)</td>
<td>(3а)</td>
<td>(3б)</td>
</tr>
</tbody>
</table>

Currency: name, code (4)

<table>
<thead>
<tr>
<th>Name of commodity (description of work or services performed), property rights</th>
<th>Rates in connection with change of shipped goods (work, services performed), transferred property rights</th>
<th>Unit of measurement</th>
<th>Quantity (volume)</th>
<th>Price (tariff) per unit or measure</th>
<th>Cost of goods (works, services), total excluding tax</th>
<th>Including excise</th>
<th>Tax rate</th>
<th>Tax amount</th>
<th>Cost of goods (works, services), total including tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1а</td>
<td>2</td>
<td>2а</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>А (prior to change)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Б (after change)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>В (increase)</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Г (decrease)</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>А (prior to change)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Б (after change)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>В (increase)</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Г (decrease)</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total increase (sum of В rows) | X | X |

Total decrease (sum of Г rows) | X | X |

Head of the organization (signature) (full name)

Chief accountant (signature) (full name)

(Individual businessman) (signature) (full name)

(requisite elements of the certificate on the state registration)

Note: The first copy - to the purchaser and the second copy - to the seller.